

Report
of the
Examination of
Midwest Security Life Insurance Company
Onalaska, Wisconsin

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

August 18, 2005

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Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, a compliance examination has been made of
the affairs and financial condition of:

MIDWEST SECURITY LIFE INSURANCE COMPANY
Onalaska, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Midwest Security Life Insurance Company (the company or MSLIC) was conducted in 2001 as of December 31, 2000. The current examination covered the intervening period ending December 31, 2004, and included a review of such 2005 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

- History
- Management and Control
- Corporate Records
- Conflict of Interest
- Fidelity Bonds and Other Insurance
- Employees' Welfare and Pension Plans
- Territory and Plan of Operations
- Affiliated Companies
- Growth of Company
- Reinsurance
- Financial Statements
- Accounts and Records
- Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1972, as Golden Investors Life Insurance Corporation and commenced business on March 15, 1973. The company changed its name to Knickerbocker Life Insurance Company of Indiana, effective September 24, 1976, and then to Omnivest Life Insurance Company on October 22, 1981. On December 31, 1985, all outstanding stock of the company was purchased by R.W. Houser, Inc. The presently used name of Midwest Security Life Insurance Company was adopted on September, 5, 1986. MSLIC redomiciled to the state of Wisconsin from Indiana on January 1, 1993.

On October 1, 2002, United Healthcare Services Inc. purchased 100% of R.W. Houser, Inc., the parent company of MSLIC and its affiliates, Midwest Security Administration and Midwest Security Care. On October 24, 2002, R. W. Houser, Inc., changed its name to Midwest Security Holdings, Inc. All outstanding shares of the company are owned directly by Midwest Security Holdings, Inc., and ultimately by UnitedHealth Group Incorporated.

The company entered into a reinsurance assumption agreement with Madison National Life Insurance Company during 2004. All rights, title, and interest in the company's annuities and supplementary contracts were accepted by Madison National Life.

In 2004, the company collected direct premium in the following states:

State	Life Insurance	Annuity	Accident & Health	Total	Percentage s
Wisconsin	\$ 603,453	\$ 599,645	\$ 95,250,694	\$ 96,453,792	41.0%
Michigan	886,450	10,202	54,420,272	55,316,924	23.5
Illinois	705,623	10,382	36,385,802	37,101,807	15.8
Indiana	529,897	10	23,173,949	23,703,856	10.1
Iowa	57,233	48,099	11,052,903	11,158,235	4.7
All others	<u>201,289</u>	<u>1,024,016</u>	<u>10,354,931</u>	<u>11,580,236</u>	<u>4.9</u>
Total	<u>\$2,983,945</u>	<u>\$1,692,354</u>	<u>\$230,638,551</u>	<u>\$235,314,850</u>	<u>100.0%</u>

The major products marketed by the company include group health plans, preferred provider plans, dental insurance, and partial self-funded group plans. The company also provides third-party administration services. About 90% of the company's group insurance business consists of preferred provider plans. The major products are marketed through approximately 1,500 independent agents. The company employs regional managers to facilitate the efforts of these agents.

The following chart is a summary of premium income as reported by the company in 2004. The growth of the company is discussed in the "Financial Data" section of this report.

Premium Income

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Group Life	\$ 2,983,109	\$	\$	\$ 2,983,109
Ordinary Life	5,856			5,856
Individual Annuities	1,692,354			1,692,354
Group Accident and Health	<u>230,862,296</u>	<u>3,924,013</u>	<u>37,091</u>	<u>234,749,218</u>
Total All Lines	<u>\$235,543,615</u>	<u>\$3,924,013</u>	<u>\$37,091</u>	<u>\$239,430,537</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently do not receive compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Jay Fulkerson Appleton, WI	Senior Vice President of MSLIC	2006
Edward Hawley Eden Prairie, MN	Senior Vice President of MSLIC	2006
Ronald Houser LaCrosse, WI	Chairman of MSLIC	2006
Robert Sheehy Edina, MN	President of MSLIC	2006
David Wichmann Burnsville, MN	Vice President and Assistant Treasurer of MSLIC	2006

Officers of the Company

The officers serving at the time of this examination are as follows:

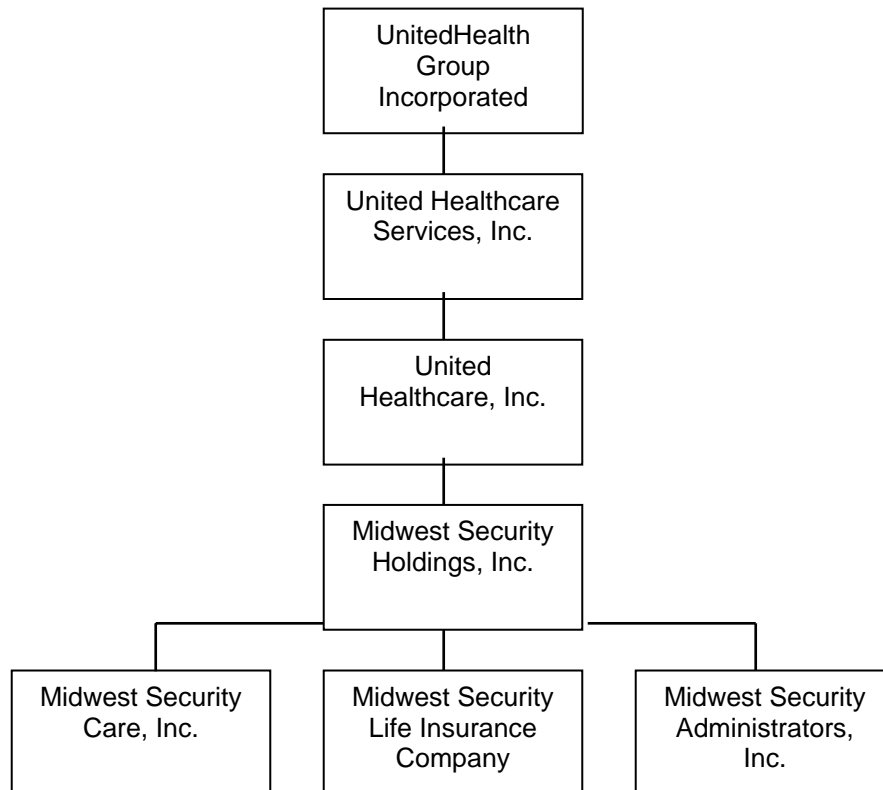
Name	Office	2004 Compensation*
Robert J. Sheehy	President	\$ 49,584
Frank M. Vierling	Chief Operating Officer and Vice President	135,025
Michael J. McDonnell	Secretary	6,928
Jaron L. Johnson	Treasurer	6,425
Ronald W. Houser	Chairman	162,933
Edward J. Hawley	Senior Vice President	12,005
Jay R. Fulkerson	Senior Vice President	25,020
David S. Wichmann	Vice President and Assistant Treasurer	64,924
Karen L. Erickson	Vice President – Finance	5,261
Robert W. Oberrender	Assistant Treasurer	3,367
Timothy G. Caron	Assistant Secretary	1,846
David J. Lubben	Assistant Secretary	68,111
Juanita Valarae Bolland Luis	Assistant Secretary	580
Mary L. Stanislav	Assistant Secretary	1,626

* 2004 compensation amount represents the amount allocated to MSLIC.

IV. AFFILIATED COMPANIES

MSLIC is a member of a holding company system. Its ultimate parent is UnitedHealth Group Incorporated. The abbreviated organizational chart below depicts the relationships among the affiliates in the direct succession of control of the company. A brief description of affiliates deemed significant follows the organizational chart.

**Organizational Chart
As of December 31, 2004**



UnitedHealth Group Incorporated

UnitedHealth Group Incorporated (UHG), the ultimate controlling person in the insurance holding company system, is a diversified health and well-being company serving approximately 56 million members throughout the United States. Through its affiliated companies, UHG offers a broad spectrum of health care products and services. As of December 31, 2004, the company's consolidated audited financial statement reported assets of \$27.9 billion, liabilities of \$17.2 billion, and shareholder's equity of \$10.7 billion. Operations for 2004 produced net income of \$4.1 billion.

United HealthCare Services, Inc.

United Healthcare Services, Inc. (UHS), a wholly owned subsidiary of UHG, provides administrative and other services to various member companies in the holding company group. As of December 31, 2004, the audited financial statement of UHS reported assets of \$14.0 billion, liabilities of \$9.0 billion, and shareholder's equity of \$5.0 billion. Operations for 2004 produced net income of \$2.0 billion.

United Healthcare, Inc.

United Healthcare, Inc. (UHC), a holding company, is a Delaware corporation incorporated on October 30, 1998, and is a wholly owned subsidiary of UHS. As of December 31, 2004, the non-audited financial statements of UHC reported assets of \$16.7 billion, liabilities of \$4.2 billion and shareholder's equity of \$12.5 billion. Operations for 2004 produced income from operations before taxes and investment income of \$2.0 billion.

Midwest Security Holdings, Inc.

Midwest Security Holdings, Inc. (MSH), was incorporated under the laws of Wisconsin on October 24, 1974, as R.W. Houser & Associates, Ltd., and serves as the holding company to MSLIC. As of December 31, 2004, the unaudited financial statements of MSH reported assets of \$225.0 million, liabilities of \$4.0 million, and stockholder's equity of \$221.0 million. Operations for 2004 provided net income of \$6,000.

Midwest Security Administrators, Inc.

Midwest Security Administrators, Inc. (MSA), was incorporated under the laws of Wisconsin as Midwest Employee Benefits, Inc., on September 18, 1989. MSA provides third-party administration services for self-funded groups who also may have purchased specific and aggregate insurance from MSLIC. As of December 31, 2004, the unaudited financial statements of MSA reported assets of \$5.0 million, liabilities of \$1.0 million and stockholder's equity of \$4.0 million. Operations for 2004 produced a net income of \$1.0 million.

Midwest Security Care, Inc.

Midwest Security Care, Inc. (MSC), was incorporated under the laws of Wisconsin on October 25, 1988, as MNICare, Inc. MSC provides medical care utilization analysis and

management services. As of December 31, 2004, the unaudited financial statements of MSC reported assets of \$367,000, liabilities of \$83,000, and stockholder's equity of \$284,000. Operations for 2004 produced net income of \$162,000.

Agreements with Affiliates

Cost Reimbursement Agreement

MSLIC and UHS entered into a cost reimbursement agreement effective October 1, 2002. Under the agreement, UHS will provide certain services to MSLIC including, but not limited to, payroll, administration, telephone and reproduction facilities, office equipment and furniture, and financial services on a cost reimbursement basis. UHS is reimbursed by the company for all costs and expenses directly incurred by UHS and any expenses associated with or attributable to the business and operations of the company, as defined by generally accepted accounting principles. The agreement continues until terminated by either party.

First Restated Tax Sharing Agreement

Effective October 1, 2002, the company entered into the First Restated Tax Sharing Agreement with the UnitedHealth Group Incorporated. The agreement establishes a formal method for the allocation and payment of federal, state and local income tax liabilities related to the consolidated income tax returns filed each year. The agreement continues until terminated by either party.

Administration Agreement

MSA performs administration functions including: premium billings, claim adjudication and payment and customer service work, in connection with a certain plan that is insured by MSLIC. MSA is paid a monthly fee of \$14,500 for performing these functions.

Health Care Utilization Review Agreement

MSC performs the following services: preadmission certification, precertification for a specified list of procedures, admission review, extended stay review, case management, discharge verification, and management reports (if applicable). The fee for the selected components is \$1.50 per covered person per month and the billing is monthly in advance.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. The reinsurance contracts pertain to certain business in run-off and not for policies currently in-force. The contracts contained proper insolvency provisions.

Ceding Contracts

1. Type: Excess and Aggregate Employer Stop Loss Medical
Reinsurer: General & Cologne Life Re of America
Scope: Self-insured medical policies
Retention: Excess Medical Coverage:
\$200,000 of incurred and paid medical benefits per insured individual per agreement year
Aggregate Medical Coverage:
\$325,000 for three or more persons insured by the company under any group self-insured medical policy covering accidents or sickness who have incurred at least \$7,500 per insured individual of covered medical expenses for claims incurred for the same medical cause
Coverage: Excess Medical Coverage:
Layer A - \$800,000 excess of \$200,000
Layer B - \$1,000,000 excess of \$1,000,000
Layer C - \$3,000,000 excess of \$2,000,000
Subject to individual lifetime maximum of \$5,000,000
Aggregate Medical Coverage:
Aggregate medical claims incurred and paid in excess of retention \$325,000 as described above, subject to maximum of \$5,000,000 payable in any one agreement year
Premium: Excess Medical Coverage:
Layer A - \$10.72 per employee per month
Layer B - \$0.25 per employee per month
Layer C - \$0.15 per employee per month
Aggregate Medical Coverage:
Composite rate of \$0.60 per employee per month subject to a minimum annual payment of \$25,000
Commissions: None
Effective date: July 1, 2002, to June 30, 2003
Termination: Yearly renewable term was terminated June 30, 2003

2. Type:	Group Long-Term Disability
Reinsurer:	UNUM Life Insurance Company
Scope:	Group long-term disability monthly income benefits
Retention:	None
Coverage:	100% of liability for group long-term disability monthly income benefits
Premium:	Consideration varies for each claim as determined by the reinsurer at the time of liability acceptance
Commissions:	None
Effective date:	January 1, 1989, continuous
Termination:	Either party by giving the other party 90 days' prior written notice with respect to all covered policies not yet ceded
	Policy was terminated December 31, 2002

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2004, annual statement. Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Midwest Security Life Insurance Company
Assets
As of December 31, 2004

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$ 66,522,632	\$	\$ 66,522,632
Real estate:			
Occupied by the company	5,434,296		5,434,296
Cash	(1,999,035)		(1,999,035)
Short-term investments	38,819,389		38,819,389
Receivable for securities	3,016		3,016
Investment income due and accrued	743,797		743,797
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	829,406	130,000	699,406
Reinsurance:			
Amounts recoverable from reinsurers	97,725		97,725
Amounts receivable relating to uninsured plans	713,484		713,484
Current federal and foreign income tax recoverable and interest thereon	211,276		211,276
Net deferred tax asset	533,344		533,344
Guaranty funds receivable or on deposit	4,620		4,620
Electronic data processing equipment and software	470,185	124,685	345,500
Furniture and equipment, including health care delivery assets	30,816	30,816	0
Health care and other amounts receivable	1,433,316	913,366	519,950
Write-ins for other than invested assets:			
Miscellaneous	21,383		21,383
Receivable Swedish American Hospital	792,009		792,009
Total Assets	<u>\$114,661,659</u>	<u>\$1,198,867</u>	<u>\$113,462,792</u>

Midwest Security Life Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2004

Aggregate reserve for life contracts	\$ 155,837
Aggregate reserve for accident and health contracts	8,465,133
Contract claims:	
Life	223,834
Accident and health	36,988,383
Contract liabilities not included elsewhere:	
Interest maintenance reserve	1,272,609
Commissions to agents due or accrued	694,720
General expenses due or accrued	2,789,125
Taxes, licenses, and fees due or accrued, excluding federal income taxes	1,094,763
Amounts withheld or retained by company as agent or trustee	1,321
Remittances and items not allocated	1,732,327
Miscellaneous liabilities:	
Asset valuation reserve	609,732
Payable to parent, subsidiaries and affiliates	1,529,898
Liability for amounts held under uninsured accident and health plans	1,591,381
Write-ins for liabilities:	
Payable PAIC	<u>40,000</u>
Total Liabilities	57,189,063
Common capital stock	\$ 2,000,000
Gross paid in and contributed surplus	1,000,000
Unassigned funds (surplus)	<u>53,273,729</u>
Total Capital and Surplus	<u>56,273,729</u>
Total Liabilities, Capital and Surplus	<u>\$113,462,792</u>

Midwest Security Life Insurance Company
Summary of Operations
For the Year 2004

Premiums and annuity considerations for life and accident and health contracts		\$239,430,537
Net investment income		5,136,555
Amortization of interest maintenance reserve		223,139
Miscellaneous income:		
Write-ins for miscellaneous income:		
Miscellaneous accident and health		2,251,520
Other interest and miscellaneous income		116,868
Ceding fee under assumption reinsurance agreement		<u>800,000</u>
Total income items		247,958,619
Death benefits	\$ 780,674	
Annuity benefits	987,255	
Disability benefits and benefits under accident and health contracts	191,253,665	
Interest and adjustments on contract or deposit-type contract funds	(176,453)	
Payments on supplementary contracts with life contingencies	56,279	
Increase in aggregate reserves for life and accident and health contracts	<u>(25,251,227)</u>	
Subtotal	167,650,193	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	15,060,831	
Commissions and expense allowances on reinsurance assumed	440,881	
General insurance expenses	13,785,996	
Insurance taxes, licenses, and fees excluding federal income taxes	4,977,981	
Write-in for deductions:		
Reserves transferred under assumption reinsurance agreement	<u>26,544,652</u>	
Total deductions		<u>228,460,534</u>
Net gain (loss) from operations before dividends to policyholders and federal income taxes		19,498,085
Federal income taxes incurred (excluding tax on capital gains)		<u>13,135,417</u>
Net Income		<u>\$ 6,362,668</u>

Midwest Security Life Insurance Company
Cash Flow
For the Year 2004

Premiums collected net of reinsurance		\$239,071,673
Net investment income		6,108,190
Miscellaneous income		<u>3,168,389</u>
Total		248,348,252
Benefits and loss-related payments	\$189,289,736	
Commissions, expenses paid, and aggregate write-ins for deductions	59,862,712	
Federal and foreign income taxes paid (recovered)	<u>13,294,269</u>	
Total deductions		<u>262,446,717</u>
Net cash from operations		(14,098,465)
Proceeds from investments sold, matured, or repaid:		
Bonds	\$39,705,987	
Net gains (losses) on cash and short- term investments	(108)	
Miscellaneous proceeds	<u>13,599</u>	
Total investment proceeds		39,719,478
Cost of investments acquired (long-term only):		
Bonds	<u>10,612,899</u>	
Net cash from investments		29,106,579
Cash from financing and miscellaneous sources:		
Net deposits on deposit-type contracts and other insurance liabilities	(209,815)	
Other cash provided (applied)	<u>(3,969,092)</u>	
Net cash from financing and miscellaneous sources		<u>(4,178,907)</u>
Reconciliation		
Net change in cash and short-term investments		10,829,207
Cash and short-term investments, December 31, 2003		<u>25,991,147</u>
Cash and short-term investments, December 31, 2004		<u>\$ 36,820,354</u>

**Midwest Security Life Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2004**

Assets			\$113,462,792
Less liabilities			<u>57,189,063</u>
Adjusted surplus			56,273,729
Annual premium:			
Group life and health	\$237,506,318		
Factor	<u>10%</u>		
Total		\$23,750,931	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		<u>126,926</u>	
Compulsory surplus (subject to a \$2,000,000 minimum)			<u>23,877,857</u>
Compulsory surplus excess or (deficit)			<u>\$ 32,395,872</u>
Adjusted surplus (from above)			\$ 56,273,729
Security surplus: (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum of 110%)			<u>31,996,328</u>
Security surplus excess or (deficit)			<u>\$ 24,277,401</u>

Midwest Security Life Insurance Company
Reconciliation and Analysis of Surplus
For the Four-Year Period Ending December 31, 2004

The following schedule is a reconciliation of total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2004	2003	2002	2001
Capital and surplus, beginning of year	\$49,894,806	\$44,406,655	\$33,917,058	\$25,842,512
Net income	6,362,668	17,898,802	16,024,150	7,864,381
Change in net unrealized capital gains or (losses)			(8,157)	(4,510)
Change in net deferred income tax	900,101	(1,210,836)	180,301	607,018
Change in nonadmitted assets and related items	(870,398)	(152,711)	(13,263)	44,974
Change in liability for reinsurance in unauthorized companies			59,826	(59,826)
Change in asset valuation reserve	(13,448)	(47,104)	438,446	(108,250)
Change in surplus notes			(3,000,000)	
Cumulative effect of changes in accounting principles				(269,241)
Dividends to stockholders		<u>(11,000,000)</u>	<u>(3,191,706)</u>	
Capital and surplus, end of year	<u>\$56,273,729</u>	<u>\$49,894,806</u>	<u>\$44,406,655</u>	<u>\$33,917,058</u>

Midwest Security Life Insurance Company
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2004

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2004	2003	2002	2001
#1	Net change in capital & surplus	13%	12%	40%	31%
#2	Gross change capital & surplus	13	12	31	31
#3	Net income to total income	3	8	8	5
#4	Commissions and Expenses to Premiums and Deposits			discontinued	
#5	Adequacy of investment income	820	413	422	415
#6	Non-admitted to admitted assets	1	0	0	0
#7	Total real estate & mortgage loans to cash & invested assets	5	4	5	6
#8	Total affiliated investments to capital & surplus	0	0	7	1
#9	Surplus relief	(1)	0	0	0
#10	Change in premium	7	10	22	41
#11	Change in product mix	0.2	0.1	0.3	0.1
#12	Change in asset mix	2.0	1.5	0.6	1.5
#13	Change in reserving ratio	55*	15	0	0

Ratio No. 13 compares changes in individual life reserves from year to year. The exceptional result in 2004 was due to the fact that the company writes a very small amount of individual life insurance. Due to the small volume, any change has a large effect on this ratio. However, the amount was immaterial and this does not appear to be indicative of any significant problems.

Growth of Midwest Security Life Insurance Company

Year	Admitted Assets	Liabilities	Surplus
2004	\$113,462,792	\$57,189,063	\$56,273,729
2003	131,718,570	81,823,764	49,894,806
2002	122,935,255	78,528,595	44,406,660
2001	109,765,950	75,848,894	33,917,056
2000	85,040,686	59,198,177	25,842,509

Life Insurance In Force (in thousands)

Year	Gross Risk In Force	Ceded	Net
2004	\$511,457	\$ 0	\$511,457
2003	450,838	0	450,838
2002	422,738	4,411	418,327
2001	397,160	3,843	393,317
2000	326,597	7,826	318,771

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combined Loss and Expense Ratio
2004	\$234,770,860	\$191,258,675	\$14,999,716	\$18,434,868	95.7%
2003	216,171,162	169,649,875	13,128,703	16,604,674	92.3
2002	195,836,439	149,382,468	12,350,649	17,734,547	91.7
2001	161,345,145	129,305,182	12,212,813	14,724,835	96.8
2000	114,443,347	91,467,240	9,849,914	12,266,108	99.2

As previously noted, on October 1, 2002, United Healthcare Services Inc. purchased 100% of R.W. Houser, Inc., the parent company of Midwest Security Life and its affiliates, Midwest Security Administration and Midwest Security Care. Since the previous examination as of December 31, 2000, assets have increased by 33.4%, liabilities have decreased by 3.4% and

surplus has increased by 117.8%. Net accident and health premiums earned have increased by 105% during the examination period while net accident and health losses incurred have increased by 109%. During this same period, the combined loss and expense ratio has decreased by 3.5% going from 99.2% in 2000 to 95.7% for 2004.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2004, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were five specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Holding Company—It is recommended that future annual holding company registration statements filed on behalf of MSLIC properly identify and report on the ultimate controlling party.

Action—Compliance

2. Invested Assets—It is recommended that the company update its custodial agreement so that it contains the proper indemnification language as required by the NAIC in the Financial Condition Examiners' Handbook.

Action—Compliance

3. Other Invested Assets—It is again recommended that the company obtain audited financial statements for investments in partnerships or nonadmit the balances in accordance with SSAP 46.

Action—Compliance

4. Drafts Outstanding—It is recommended that the company properly include only drafts in the drafts outstanding line in accordance with NAIC Annual Statement Instructions Life, Accident and Health.

Action—Compliance

5. Liability for Amounts Held Under Uninsured Accident & Health Plans—It is recommended that the company discontinue the practice of offsetting the liability of one group of uninsured accounts with the asset relating to a different plan in accordance with SSAP 47.

Action—Compliance

Summary of Current Examination Results

Callable Bonds

In accordance with the NAIC Annual Statement Instructions for Life and Health, bonds that have the call option characteristic are to be designated with a “1” in column five of Schedule D – Part 1. The review of the company’s Schedule D - Part 1 revealed that not all of the company’s bonds that have the call option were properly reported with a “1” in column five. It is recommended that the company properly report all callable bonds in Schedule D – Part 1 in accordance with NAIC Annual Statement Instructions for Life and Health.

Holding Company Report

The company’s Insurance Holding Company Annual Registration Statement, Forms B and C, were reviewed. It was revealed that several of MSLIC’s key historical dates were reported inaccurately, including the company’s redomestication to Wisconsin. It is recommended that the company’s Insurance Holding Company Annual Registration Statement, Forms B and C, include accurate information regarding the company’s historical dates.

Uncollected Premiums

\$699,406

The review of the uncollected premiums and agents’ balances in course of collection revealed that the company nonadmitted an amount of \$130,000. Further review discovered that the nonadmitted portion was an estimation that has been carried forward for several years and that no documentation was available to support the amount. The balance reported by the company for this account was found to be materially correct, but the company still needs to perform an extensive review of this account balance every year to determine that the balance is accurately reported. It is recommended that the company properly report the nonadmitted portion of the uncollected premiums and agents’ balances in course of collection in accordance with the NAIC Annual Statement Instructions for Life and Health.

A review of the company’s premiums discovered that 93% of the company’s premiums are due on the first day of every month, while 7% of the company’s premiums are due on the fifteenth day of every month. It was revealed that for those policies that are due on the fifteenth day of every month, the company was not properly reporting the amount of uncollected

premiums and agents' balances in course of collection (uncollected premiums) at year-end. For example, if premium was not received before year-end for a policy with an effective date of December 15, the company was reporting a half month of uncollected premium and no unearned premium. The company should be reporting a full month of uncollected premium at year-end and a half month of unearned premium. The balance reported by the company for uncollected premiums was found to be materially correct. It is recommended that the company properly report their uncollected premiums and agents' balances in course of collection in accordance with NAIC Annual Statement Instruction for Life and Health.

Advance Premium

\$0

The review of the company's annual statement revealed that the company was reporting zero for premiums received in advance. It was discovered that the company was including advance premiums in the unearned premium balance. Advance premiums occur when payments are received prior to the effective date of the policy. It is recommended that the company properly report advance premiums on its annual statement in accordance with SSAP No. 54, paragraph 6.

Unearned Premiums

\$8,465,133

As mentioned above, the company was not properly reporting the amount of unearned premium. The balance reported by the company for unearned premium was found to be materially correct. It is recommended that the company properly report unearned premium in accordance with SSAP No. 54.

VIII. CONCLUSION

The examination resulted in six recommendations. No adjustments to surplus or reclassifications of account balances were made. The company was in compliance with all of the recommendations made on the previous examination.

On October 1, 2002, United Healthcare Services, Inc., purchased 100% of R.W. Houser, Inc., the parent company of Midwest Security Life and its affiliates, Midwest Security Administration and Midwest Security Care.

Since the previous examination as of December 31, 2000, assets have increased by 33.4%, liabilities have decreased by 3.4% and surplus has increased by 117.8%. Net accident and health premiums earned have increased by 105% during the examination period while net accident and health losses incurred have increased by 109%. During this same period, the combined loss and expense ratio has decreased by 3.5% going from 99.2% in 2000 to 95.7% for 2004.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Callable Bonds—It is recommended that the company properly report all callable bonds in Schedule D – Part 1 in accordance with NAIC Annual Statement Instructions for Life and Health.
2. Page 21 - Holding Company Report—It is recommended that the company's Insurance Holding Company Annual Registration Statement, Forms B and C, include accurate information regarding the company's historical dates.
3. Page 21 - Uncollected Premiums—It is recommended that the company properly report the nonadmitted portion of the uncollected premiums and agents' balances in course of collection in accordance with the NAIC Annual Statement Instructions for Life and Health.
4. Page 22 - Uncollected Premiums—It is recommended that the company properly report their uncollected premiums and agents' balances in course of collection in accordance with NAIC Annual Statement Instruction for Life and Health.
5. Page 22 - Advance Premiums—It is recommended that the company properly report advance premiums on its annual statement in accordance with SSAP No. 54, paragraph 6.
6. Page 22 - Unearned Premiums—It is recommended that the company properly report unearned premium in accordance with SSAP No. 54.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Tom Janke	Insurance Financial Examiner
Kerri Miller	Insurance Financial Examiner
Angie Graff	Insurance Financial Examiner

Respectfully submitted,

Rick Anderson
Examiner-in-Charge

XI. APPENDIX – SUBSEQUENT EVENTS

On January 7, 2005, the Board of Directors declared, and MSLIC paid, a dividend of \$28,500,000 to the company's parent company, United Healthcare, Inc. The Office of the Commissioner of Insurance did not disapprove the dividend.